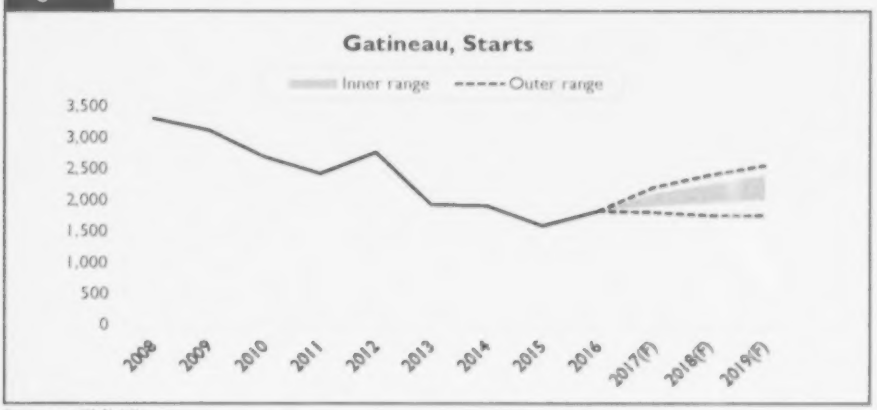
HOUSING MARKET OUTLOOK

Gatineau[1]

CANADA MORTGAGE AND HOUSING CORPORATION

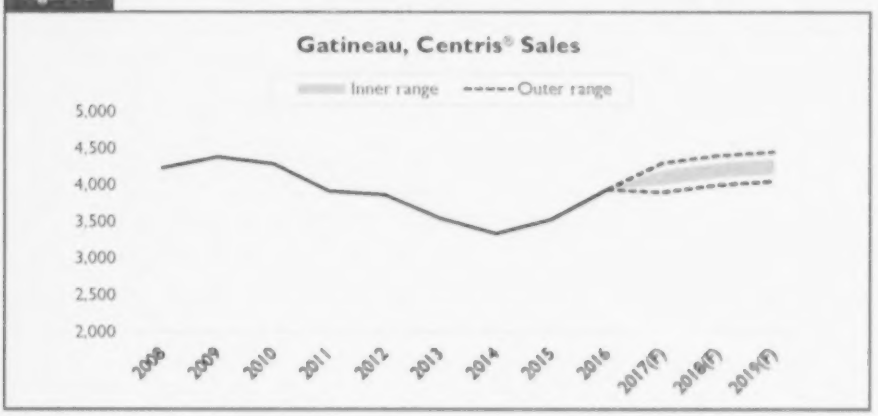
Date Released: Fall 2017

Figure 1



Sources: CMHC
(F): Forecast

Figure 2



Sources: QFREB; (F): Forecast

Highlights[2]

- The rate of housing starts will increase as a result of stronger housing demand. The rental segment will be one of the drivers of this increase in activity.
- On the resale market, the favourable economic conditions will work to increase the number of Centris® transactions, and price growth will be greater than it has been over the last few years.
- The vacancy rate for conventional rental housing will remain high, notably due to the increase in the number of units that will be added to supply on the rental market.

Activity on the new home market will maintain its momentum

In 2016, residential construction embarked on an upward trend that will continue over the next few years. This upward trend will be supported by an increase in housing demand, itself sparked by a relatively strong labour market as well as a slight

[1] Quebec part of Ottawa-Gatineau CMA

[2] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Canada

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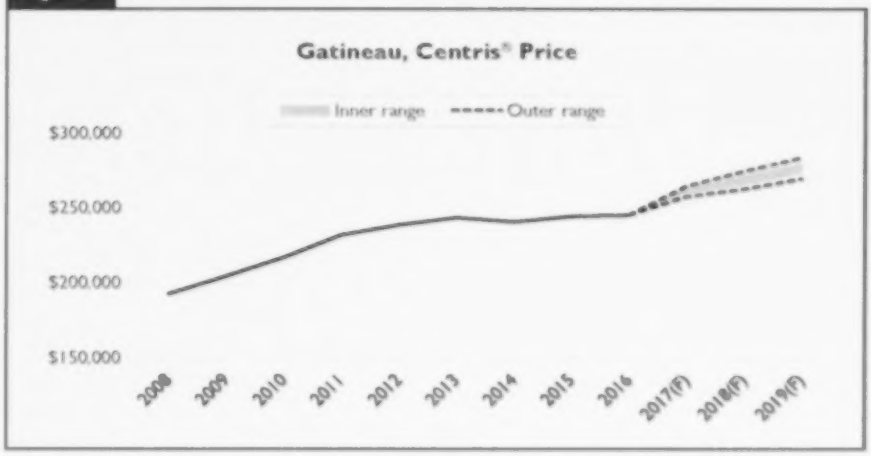
uptick in the number of people aged 25 to 44[3]. Housing starts will range between 1,900 and 2,100 in 2017; 1,950 and 2,250 in 2018; and 2,000 and 2,400 in 2019.

A significant portion of the increase in residential construction will be attributable to rental housing. Starts of conventional rental apartments will post a significant increase in 2017. From 2018 to 2019, they will remain at high levels despite the soft market conditions[4]. On the seniors' housing market, several big projects were started in 2017, and others could be launched over the next few years. Indeed, certain developers are looking to position themselves in this market, as they anticipate greater demand from older households[5].

The construction of single-detached, semi-detached and row houses will also increase over the coming years. This construction will be stimulated by favourable conditions and a decrease in the supply of properties for sale on the new home and resale markets. For single-detached homes, however, this construction growth will be tempered by various factors, including intensification requirements applicable on the territory of the city of Gatineau.

Condominium starts will remain relatively stable and at a slightly lower level than the average over the last ten years[6]. Despite a dwindling supply of new and existing condominiums[7], the number of units still available on the resale market remains significant,

Figure 3



Source: CMHC (F): Forecast

and this will contribute to limiting the need for new units between 2017 and 2019.

Resale market activity will continue to increase

Sustained by a strong labour market and, to a lesser extent, by population growth, transactions on the resale market will continue along the upward trend observed over the last two years until 2019. This growth will, however, be dampened by progressive interest rate increases over the period. Centris® sales will range between 4,000 and 4,200 units in 2017, between 4,100 and 4,300 units in 2018, and between 4,150 and 4,350 units in 2019.

This increase in activity will reduce the gap between supply and demand over the forecast horizon. As such, market conditions will gradually tighten. In the case of single-family homes, the most-represented housing type in transactions in the area, market tightening will be such that this segment should become an overall sellers' market. Market conditions will be particularly tight in Hull, Aylmer and Gatineau. The number of plexes and condominiums for sale is high enough that the increase in transactions will allow conditions to balance out gradually over the forecast horizon without those segments moving into sellers' market territory.

This situation will result in a higher increase in the average Centris® price than the average annual growth rate recorded between 2013 and 2016 (0.7%)[8]. The highest increase will be observed in the single-family home segment and in the sectors where the

[3] According to Statistics Canada's 2011 National Household Survey, household aged between 25 and 44 accounted for 70% of household who bought a property in the region.

[4] See the section on the rental market.

[5] The growth in the population aged over 75 in the area will accelerate (see the section on demographic trends). Additionally, the vacancy rate for seniors' residences in the Gatineau area decreased in 2017.

[6] From 2006 to 2016, there was an average of 462 condominium apartments starts per year.

[7] The number of completed and unabsorbed condominiums was 187 in August 2017, below the peak of 284 reached in October 2015 (six month moving average). On the resale market, the August year to date number of active listings was down by 11% from the same period in 2016.

[8] According to Statistics Canada's 2011 National Household Survey, nearly two thirds of newly arrived migrants to the region opt for rental accommodation.

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market conditions for this product type are tightest. As for plexes and condominiums, the increases in average Centris® prices will be more modest.

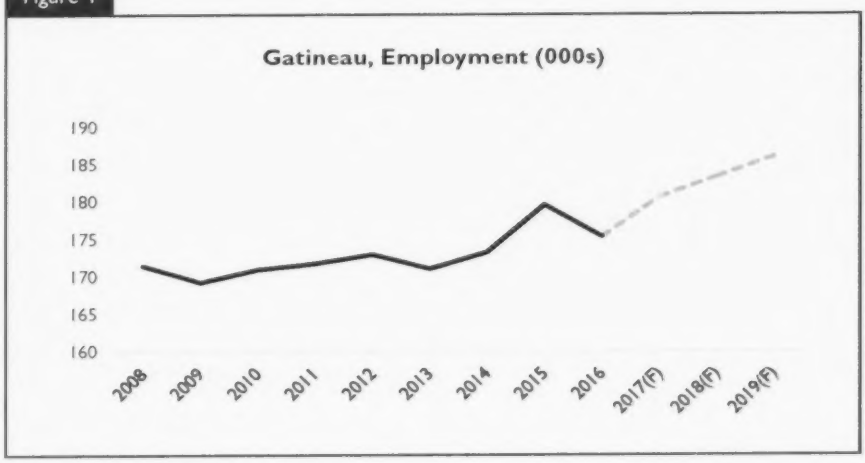
The vacancy rate will remain relatively high

The rental market in the region has remained relatively soft for the last four years. From 2017 to 2019, supply and demand will rise such that the proportion of vacant units will remain relatively stable (at a high level) in comparison to the past few years.

On the demand side, the pool of potential renters will grow at a sustained pace over the forecast horizon. The observed and projected growth in employment will allow the region to attract and retain a greater number of people than in the recent past. This growth will also encourage certain young people to leave the family home and move into their own place. A portion of these new renters, however, will continue to opt for rental condominiums. This will limit growth in demand on the conventional rental market.

On the supply side, the construction of several projects will get under way, and a significant number of units will be added to the conventional rental stock between 2017 and 2019. As a result, there will be considerable growth in supply. If the supply of units is increasing more than expected, the vacancy rate on the conventional rental market could grow over the next few years.

Figure 4



Source: Statistics Canada
(F): Forecast

Strong employment and an aging population

After posting a decline of about 2% in 2016, employment in the Gatineau area has rebounded significantly since the beginning of 2017 (+3%)[9]. This growth has largely been reflected in the economic sectors that are among the best-paying: public administration, trade and construction. Over the next few years, the number of jobs in the area will remain high, resulting in an overall increase in housing demand.

In terms of the demographic outlook, the population will grow by about 1.2% per year from 2017 to 2019[10] in the Gatineau area. However, population is aging. Indeed, the growth in the number of people over 75 years of age will accelerate from 2017 to 2019 (5.3% per year, on average), while the growth in the number of people aged 25 to 44 will be relatively stable and modest (1.2% per year, on average).

This situation will contribute to sustaining housing demand, particularly on the seniors' housing market.

As for net migration, due to its strong labour market, the Gatineau area will have a greater ability to attract and retain people relative to other regions between now and 2019. In 2016, the area saw a quadrupling of net migration (1,926 people), owing not only to an improvement in net interregional migration, but also to net interprovincial and international migration. While it will not show such a marked increase over the next few years, net migration should continue to grow and fuel demand, particularly on the rental market.

[9] Statistics Canada, from January to August 2017, relative to the same period in 2016.

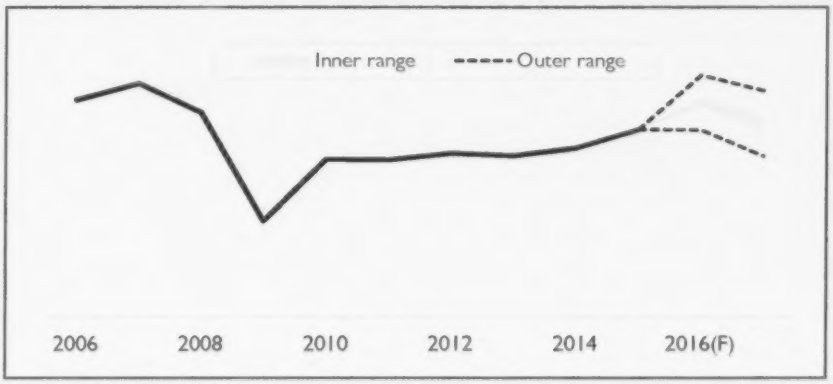
[10] Source: Institut de la statistique du Québec, *Perspectives démographiques du Québec et des régions, 2011-2061*.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary
Gatineau CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	479	422	375	350	425	375	450	375	475
Multiples	1,424	1,162	1,444	1,550	1,675	1,575	1,800	1,625	1,925
Starts - Total	1,903	1,584	1,819	1,900	2,100	1,950	2,250	2,000	2,400
Resale Market									
Centris® Sales	3,335	3,528	3,941	4,000	4,200	4,100	4,300	4,150	4,350
Centris® Average Price($)	240,688	244,300	245,149	259,000	263,000	265,000	272,000	273,000	280,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	6.5	5.9	6.3	6.0	5.7	5.5
Two-bedroom Average Rent (October)($)	750	751	762	770	780	790
Economic Overview						
Population	326,886	328,784	332,394	336,500	340,500	344,500
Annual Employment Level	173,200	179,500	175,300	180,600	183,300	186,000

QFREB by Centris®. The Centris® system contains all the listings of Québec real estate board.
Rental Market: Privately initiated rental apartment structures of three units and over.
The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.
It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.
Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, Centris®, CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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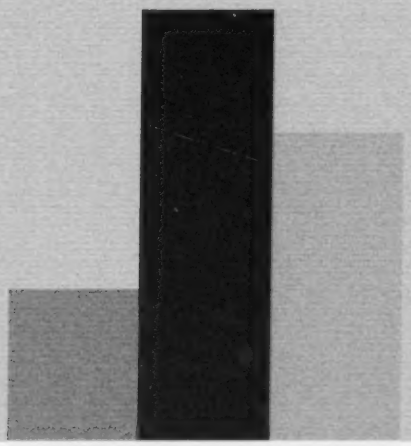

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